American University of Beirut
Institute of Financial Economics

Lecture and Working Paper Series No. 3, 2007

Rebuilding Without Resolution
The Lebanese Economy and State in the Post-Civil War Period

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Samir Makdisi[2]

1. This is a revised version of a forthcoming paper in Leonard Binder (ed.), *Rebuilding Devastated Economies of the Middle East*, 2007, Palgrave Macmillan. It is reproduced with permission of the publisher. I am grateful to the participants in the workshop on "Rebuilding Devastated Economies of the Middle East" organized by the Center for Near Eastern Studies at UCLA, February 4-5, 2005, and to Steve Hydemann and Sami Ofeish for helpful comments on earlier versions of the paper.

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Rebuilding Without Resolution
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Abstract

This paper addresses basic issues related to the multi-dimensional rebuilding of the Lebanese state and economy in the aftermath of the civil war. It begins with a review of the major features of the pre-war period, moves on to a brief analysis of the major determinants of the civil war and finally analyzes the process of rebuilding both the shattered state and the national economy since the formal settlement of the conflict in 1989. In assessing to what extent this process has been successful, four questions are taken up: (a) political governance/stability, (b) growth and macro-economic performance, (c) the dominance of the private sector in the national economy, and (d) the new global environment. In light of this assessment the paper concludes that a vigorous national economic development would contribute to an enduring peace but, on its own, would not necessarily overcome potential elements of instability in the political system or necessarily shield it from external destabilizing influences. Only a successful resolution of the weaknesses of its political institutions, including in the longer term the move towards a more democratic, open and secular system, would ensure Lebanon's long-term political stability and economic prosperity in an increasingly integrated world.

Introduction: The Geopolitical Context

Since Lebanon gained its independence in 1943, Lebanon's national development has been profoundly affected by the interlocking influences of geopolitics and regional conflicts, domestic political institutions and the impact of a long lasting major civil war (1975–1990).

The creation of Israel in 1948 and the ensuing inflow of Palestinian refugees into neighboring countries including Lebanon were to have a major impact on the Lebanese domestic political scene. Indeed, the persistently sectarian nature and behavior of Lebanon's political institutions interacted with the Arab-Israeli conflict to bring about the long lasting civil war with its multiple external interventions that brought havoc to the Lebanese state and economy.[3] The settlement of this war by the Taif Accord (1989)[4] permitted the stationing in Lebanon of Syrian forces (see section IIB3 below), with a consequent Syrian hegemony over Lebanon's political, and -to a much lesser extent- economic affairs until April 2005 when the Syrian forces were forced to withdraw.

This withdrawal had been called for by the UN Security Council 8 months earlier via its Resolution 1559 which was adopted on August 2004 and which Syria failed to heed. In 2005 and 2006 Lebanon witnessed profound political/security/ military developments that also involved external interventions. On February 14, 2005 former Prime Minister Rafic Hariri, an influential Sunni political actor, was assassinated.

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3. For an analysis of the causes of the civil war and a review of the destruction it brought in its wake see respectively S. Makldisi and R, Sadaka " The Lebanese Civil War, 1975–1990" in P.Collier and N. Sambanis, *Understanding Civil War, Evidence and Analysis* (the World Bank , 2005) and B. Labaki and K. Abou Rjeily, *Bilan des Guerres du Liban*, L'Harmattan (1993)

4. Under pressure from Western and Arab governments, the war officially ended with an accord of national reconciliation, negotiated under Arab auspices in Taif, Saudi Arabia in October 1989, and thus known as the Taif Accord. Constitutional amendments were adopted by Parliament on August 21, 1990 and signed into law by the President of the Republic on September 21, 1990. Actual fighting, however, did not end completely end until October of that year.

The assassination set in motion a series of political events that led shortly afterwards (mostly under Western pressure) to the Syrian troop withdrawal.[5] Consequently, Syrian dominance over post-war Lebanese domestic politics was greatly diminished. Parliamentary elections were held in May-June of 2005 and a new political environment (marred by major political divisions and crises) has since emerged where Lebanese political actors and parties have a wider scope to compete.. However, strong external influences, (mainly Western, Iranian and Syrian) have continued to affect domestic outcomes.

On July 12, 2006 Israel waged a vicious war on Lebanon. Principally, the war took the form of aerial attacks that lasted until August 14, 2006 and targeted, in particular, areas where the political presence of Hizbollah is strong. Ostensibly the war was triggered by the capture of two Israeli soldiers by Hizbollah, though the Lebanese government declared at the time that it was neither aware of, nor responsible for their capture. More fundamentally, the war was related to regional political objectives, supported by Western countries, including the intended

5. Other major developments in 2005 included the return from exile and the freeing from imprisonment of two major political actors of the civil war. They are General Michel Aoun who, as interim prime minister towards the end of the civil war was forced to leave the county in late 1990. He returned on May 7, 2005; and Samir Jeajea , leader of the (Maronite)Lebanese forces (LF), one of the major militias of the civil war. He was imprisoned in 1994 and freed on July 26, 2005. Also a number of assassinations of politically active personalities have taken place, namely the journalist Samir Kassir on June 2, 2005 and the former secretary general of the communist party George Hawi on June 21, 2005. Two attempted assassinations were made on Elias El Murr (Minister of defense) on July 12, 2005 and TV journalist May Chidiac on September 25, 2005. On December 12, 2005 Jibran Teuni, chair of the board of the daily "Annahar" newspaper and a recently elected member of Parliament was assassinated. A little less than a year later, on November 21, 2006, Pierre Amine Gemayel of the Kataeb Party, a member of parliament and at the time Minister of Industry, was also assassinated.

containment or bringing to heel not only of Hizbollah, but of Iran and Syria as well.[6] As it turned out, the immediate outcome of the war was that it failed to attain these objectives.[7] However, the full political ramifications of the Israeli attack are yet to run their course. What the war managed to do is to intensify the already existing political divisions over specific national issues and to draw external interventions deeper in the affairs of Lebanon (see fn. 30 below). As of this writing (March 2007), attempts at national political reconciliation had not yet succeeded and it remains uncertain how the political crisis facing the country might be resolved.

The above developments define the context in which the achievements and failures of Lebanese development from independence up to the early part of 2007 have to be assessed. Equally important, they explain the evolving major national issues with their regional dimensions that Lebanon has been facing since independence, and has continued to face in the post civil war era as it attempted to rebuild its shattered state and economy only to receive a severe blow to its infrastructure and national unity as a result of the July 2006 war.

Whatever the ultimate outcome of the major political and security events of 2005 and 2006, they have once again demonstrated the persistent challenge facing Lebanon: how to manage its sectarian political system whereby it is better able to cope with the domestic impact of disruptive regional influences from which it

6. Shortly after the Israeli attack, Secretary of State Condoliza Rice spoke of a "new Middle East" as a major objective of the war. Fearful of the growing strength of Iran, even Egypt, Jordan and Saudi Arabia initially indirectly encouraged the Israeli attack by openly criticizing the capture of the two soldiers. With the great destruction and loss of lives that was to follow in subsequent days and the inability of Israeli forces to defeat Hizbollah on the ground, they tended to change their position by calling, among other countries, for an immediate ceasefire. In the context of regional rivalries the initial position taken by these three countries is highly significant. To them the control or weakening of Hizbollah meant the weakening of Iranian regional influence. The war was finally halted by UN Security Resolution 1701 that, among other things, called for the substantial enhancement of UN peace keeping forces in southern Lebanon.Significantly, after the war Hasan Nasrullah (leader of Hizbollah) publicly admitted that his party did not anticipate a full scale war to be waged by Israel in response to the capture of the two soldiers, while on March 17, 2007 the Prime Minister of Israel was reported to have admitted to the Israeli Winograd Commission investigating the conduct of the war that the onslaught (awaiting a pretext) had been planned several months earlier (*Haaretz*, March 17, 2007)

7. In the aftermath of the war, many commentaries in the Western and Israeli press (let alone the Lebanese and Arab press) reflect this conclusion. See for example: *The Guardian*, August 17, 2006, *the Economist*, August 26–Septermber 1, 2006 and *Haaretz*, August 16 and September 7, 2006.

cannot altogether shield itself. This, of course, is not an easy task; not only on account of the entrenched domestic sectarian influences, but also because the rapidly globalizing world perforce locks national development, especially of the smaller states, to the economic and political global environment and to the agenda dominated by major Western countries, in particular the US. As it will be argued below, the reform of the country's political institutions with a view to enhancing dramatically the quality of political governance would go a long way in enabling Lebanon to meet this challenge. Until then, the foundations of a viable national rebuilding remain to be laid.

With the above in mind, this paper addresses basic issues related to the multi-dimensional rebuilding of the Lebanese state and economy in the aftermath of the civil war. It is divided into two main sections and a concluding section. Section I is a background discussion. It begins with a review of the major features of the pre-war period, and then moves on to a brief analysis of the major determinants of the civil war. Part II analyzes the process of rebuilding both the shattered state and the national economy after the formal settlement of the conflict in 1989. An attempt will be made to assess to what extent this process has been successful, and the questions to be addressed, if viable long-term political and economic development are to be achieved. Four issues are briefly taken up: (a) political governance-stability, (b) growth and macro-economic performance, (c) the dominance of the private sector in the national economy, and (d) the new global environment. Section III concludes.

Background: Pre-Civil War Developments, Onset and Settlement of the Conflict

Major Political and Economic Features of the Pre-Civil War Period

Four salient features of the pre-war years are highlighted: "consociational democracy", robust economic growth, socio-economic gaps and domestic political tensions.

"Consociational Democracy"

The political system that emerged after independence was based on an arrangement for power sharing in the affairs of the government and public sector institutions among the countries' officially recognized religious communities, and commonly described as "consociational democracy."[8] In its essence, however, the emerging system reflected what elsewhere I have termed a "constrained democracy"[9] in that, irrespective of the agreed arrangement, under the sanctioned sectarian formula for power sharing individual citizens, by virtue of belonging to different religious communities, enjoy unequal political rights.[10] I will come back to this issue in section IV.

The three principal religious communities—Maronite Christians, Sunni and Shi'a Muslims—or perhaps one should say their respective business and political classes—stood to gain most in terms of political power and influence, with clear advantages being initially accorded to the Maronite community specifically.[11] In practice a sectarian formula was applied to cabinet posts that were apportioned among the six largest religious communities in the country (normally along with representation of the Armenian community, considered an additional but a separate

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8. In the literature this term has been used to refer, among other attributes, to proportional representation in elections and public office among different groups in society. For a review of consociational democracy see R. Andeweg. "Consociational Democracy," *Annual Review of Political Science*, 2000 and H.M.Binningsho, "Consociational Democracy and Post Conflict Peace . Will Power Sharing Institutions Increase the Probability of lasting Peace After Civil War ?", unpublished paper (January 2005) .

9. See Samir Makdisi, *The Lessons of Lebanon, The Economics of War and Development* (I.B. Tauris, 2004), p 3.

10. Article 95 of the Constitution of the newly independent republic stated that for a temporary but unspecified period, religious sects (currently, eighteen are officially recognized) would be equitably represented in public employment and cabinet posts. The principle of equitable representation was not defined. However, an unwritten national accord reached among political leaders on the eve of independence specified that the post of the President of the Republic was to be held by a Maronite Christian, that of the Speaker of the House by a Shiite Muslim and the premiere- ship by a Sunni Muslim.

11. Among other privileges, the "Maronite" president enjoyed executive authority, assisted by cabinet members whom he appointed and from whom the president designated a prime minister, though in practice, the latter shared in executive authority to a greater degree than specified in the constitution. With the approval of the council of ministers the president had the prerogative of dissolving parliament before expiration of its mandate. Furthermore, under the unwritten national accord, in parliament the Christian community (comprising the several sub-groups) enjoyed a 5 to 4 majority in the distribution of seats.

community) but frequently to the exclusion of other officially recognized (minor) religious communities.[12] An overall balance between Christian and Muslims has been maintained in the cabinet to this day. The discriminatory aspects of the system also pertain to the personal status laws, which, among other things, deal with marriage/divorce and inheritance. These laws fall under the jurisdiction of the official bodies of the respective religious communities.

The fact that a sectarian balance had to be maintained implied that no one single political, religious or politico-religious group (including the army) could impose its hegemony or ideology. This, as it turned out, had its positive aspect in that it tended to promote political liberalism, albeit in the context of the prevailing sectarian system. Indeed, the pre-war years were characterized by periodic parliamentary elections (no matter how imperfectly conducted), religious freedom, relatively free expression and association, the peaceful change of presidents[13] and cabinets, and the growth of sectarian and non-sectarian political parties. On the other hand, the dictum of delicate sectarian balance led to the emergence of a weak state and, as a consequence, the inability on the part of the coalition governments to implement substantive political and/or administrative reforms. Given the sectarian/familial/ clientist nature of the political system, political governance was marred with corruption, nepotism, clientelism, and laxity in upholding the public interest when it came to conflict with private interests.[14] The negative developmental impact of these shortcomings on the quality of development were perhaps partly countered by the relatively rapid economic growth and expanding work opportunities in the pre-1975 period (see following section).

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12. They include the Protestant, Roman Catholic and Assyrian communities, among others.

13. A qualifier to this statement is the assassination of President-Elect Bachir Gemayel on September 14, 1982 and towards the end of the civil war of President-Elect Renee Mouawad on November 22,1989. However both assassinations were related not simply to domestic political struggles but more so to external interventions in the affairs of Lebanon.

14. See, for example, Elizabeth Picard, Lebanon, *A Shattered Country* (Holmes and Meier, 1996)

Market Oriented Economy and Robust Economic Growth Marred by Socio-Economic Gaps

From the beginning of independence, there was political consensus, among the major political groupings, that the national economy should basically be market oriented. This was fostered by the existence of a traditionally influential business class and a political leadership (close to the business class) that supported liberal economic policies (generally conservative fiscal and monetary policies) and the opening of the national economy to the outside world. As early as the nineteen fifties, the Lebanese exchange system became completely free of any restrictions on either current or capital movements in contrast with the prevailing exchange systems in the countries of the region and elsewhere that were characterized by exchange controls and other restrictions. Governmental policy was business friendly being mostly non-interventionist and supportive of private sector initiatives. The role of the state was thus minimalist, whereas in neighboring Arab countries development was state led with most of the major economic enterprises being nationalized. In consequence, private capital in these countries, tended to seek refuge and investment opportunities abroad especially in Lebanon with its private sector oriented and open economy. This tendency was reinforced by political upheavals in neighboring countries. At the same time, while experiencing serious domestic political tensions of its own (see below) Lebanon managed to attract other foreign capital and enterprises supplemented by emigrant remittances from the Lebanese Diaspora, especially from those living in the US and South America.

The Lebanese private sector, traditionally enterprising, took full advantage of these favorable conditions. In consequence, the national economy experienced a rapid and broad-based expansion, (with relatively high investment rates) accompanied by relative financial stability.[15] This expansion, however, concealed

15. The average annual rate of growth from 1950 to 1974 was estimated at about seven percent. Per capita income increased significantly, standing in 1974 at about $1,200 (about $ 4800 at 2000 prices) one of the highest levels for a developing country at that time. Up to 1970 the annual rate of inflation was estimated at 2-3 percent. Educational standards were also relatively advanced. For 1974 gross school enrollment for the first and second levels stood at 74 percent. Again, this was a higher level than the levels then prevailing in neighboring Arab countries, as well in many other developing countries. National health standards improved though mainly in urban centers and especially the city of Beirut. See S. Makdisi, *The Lessons of Lebanon, the Economics of War and Development*, pp. 14–29.

substantial socio-economic gaps and highly uneven distribution of the benefits of the liberal economic system that largely accrued to the political and business and, to a lesser extent, the professional class. The main reason for this lop-sided domestic development is the relatively poor institutional performance attributable to the sectarian/familial/clientelist nature of the political system. The development of the various regions of the country was strikingly uneven while limited progress was made in narrowing the gap, in real terms, between the high income and low-income groups.[16] Furthermore, the social conditions of a sizable portion of the population were extremely inadequate and were exacerbated by the migration from rural areas to urban centers, especially Beirut, which in effect became surrounded with belts of poverty.[17]

The prevailing inequality in income distribution might not have been as skewed as in other developing countries, However, it must be considered against Lebanon's regional inequalities and their confessional dimensions. For example, the position of the middle class was much more salient in Beirut (dominated by Sunni Muslims and Christians) and the central mountain region (dominated by Christians) than in regions like the south, the Beqa'a, the northeast, and Akkar in the north (dominated by Shi'a and Sunni Muslims) where large land holdings and class distinctions were common. This gave a clear confessional coloring to the question of inequity in income distribution, particularly in regard to the Shi'a community.

Political Tensions and Confrontations

What is striking about the pre-war period is that the country experienced robust economic growth and rising per capita income despite the emergence of major

16. Available empirical studies indicate that over the pre-war period the percentage of the very poor/ poor groups in total population may have declined from the 1950's to the early 1960's but thereafter remained the same at roughly one half of the total. A study conducted in the mid-seventies indicates that for 1973–74 the middle class accounted for 25 percent of the population and the well to do and very rich for about 20 percent , and the remaining 55 percent by the poor and very poor. See Yves Schmeil, *Sociologie du Systeme Politique Libanais*, Grenoble, ed. Universitaire de Grenoble, 1976.

17. For a review, see Makdisi, *The Lessons of Lebanon, the Economics of War and Development* pp. 23–28.

political tensions and confrontations attributable to both domestic and regional factors. The domestic factor was directly related to the sectarian system for power sharing, principally among the three leading religious communities. There were constant domestic political calls by Muslim political leaders for a more equal power sharing between the Christian and Muslim communities. Such calls carried with them a shift of economic benefits in favor of the Muslim community, arising from greater access to public sector employment as well as opportunities to participate in or control private economic enterprises that, to a large extent, were in the hands of the Christian community. The Maronite establishment tended to ignore such calls, fearing the political implications of even a limited loss of constitutional power. Additional strains emanated from the uneven development among the various regions and wide disparities in income distribution that led to migration from rural to urban centers and to the unchecked and rapid growth of poor suburbs around the major cities (Beirut in particular).[18]

The external factors, which placed increasing strains on the Lebanese political system, related to the rising military power of resident Palestinian political and military organizations, particularly after the 1967 Arab-Israeli war. While their activity was ostensibly directed at keeping the Palestinian cause alive and continuing the struggle to reclaim Palestine, these organizations' presence in Lebanon became intricately linked to Lebanese domestic political affairs. The domestic and regional political agendas could hardly be separated. The prevailing weaknesses of the political system were exploited by Palestinian organizations to enhance their political and military positions. For this purpose, they forged alliances with disenchanted Lebanese sectarian (Muslim) and non-sectarian (leftist and other non-establishment) political parties, that regarded such an alliance as a means to pressure the Maronite establishment to accept political reforms which also meant wider economic opportunities for these parties. Domestic political

18. Indeed, in 1974 the religious leader of the Shi'a community, Imam Musa al Sadr, launched a political movement, "Amal," as a political and economic thrust intended to enhance the position of the Shi'a community in the Lebanese sectarian system, as well as to act as a countervailing force to the growing influence of Palestinian organization in southern Lebanon. Amal presented itself as a "movement of the dispossessed," and its appeal was to a large extent based on the lagging socio-economic conditions of the Shi'a community in comparison with other communities in Lebanon. It was to develop, especially after 1982, into one of the major warring factions in the Lebanese civil war.

tensions, not surprisingly, invited indirect external interventions (later to become direct) most notably by Lebanon's immediate neighbors, Syria and Israel.

This combination of domestic and external factors eventually led to the inevitable outbreak of the civil conflict on April 13, 1975. Irrespective of the particular circumstances that ignited it, what matters is that the clouds of an impending widespread armed clash between Christian political parties and Palestinian organizations had been gathering for a number of years, particularly after the expulsion of the PLO from Jordan in 1970. With this expulsion, southern Lebanon became in practice the only sanctuary for PLO operations against Israel, no matter what measures the Lebanese state undertook to control Palestinian military activity. Fuelled by mutual mistrust and opposing objectives, periodic armed clashes took place between the Palestinians and the Lebanese army and/or Christian parties. All efforts, domestic and Arab, aimed at reconciling existing differences failed to produce more than a temporary reprieve. This was the prevailing atmosphere prior to the clash in the Beirut suburb, which ignited the civil war.[19]

The Civil War: On Causes and Duration, Economic Impact, and Political Fragmentation

On the Causes and Duration of the Civil War

There is a growing cross-country literature on the causes of civil conflict as well as the factors that account for its duration. A basic question that has been addressed (which we can only refer to here) is whether the underlying causes of civil conflict are attributable to economic greed (opportunity) or some form of grievance linked to political and/or economic and/or social injustice. While the role of economic, political and other factors in the outbreak of civil conflicts may differ from one case to another, there is perhaps wide agreement that the causes of civil conflicts are complex including a combination of greed and grievance, or both economic

19. For details about political and military developments in 1970–1975 see Farid El Khazen, *The Breakdown of the State in Lebanon, 1975–1976*, (I.B. Tauris, 2000) and Kamal Salibi, *Cross Roads to Civil War*, (Caravan Books, 1976), pp. 54–98.

and political elements, let alone external interventions in a good number of such conflicts that actively contributed to both their outbreak and prolongation. The importance of each set of these factors differs from one country to another. Whereas in certain cases economic factors (e.g. level of per capita income, the rate of growth and the importance of natural resources in the economy) played a key role in the outbreak of civil war, in others they either hardly mattered or perhaps acted to weaken the probability of civil conflict. Similarly, while in some countries social divisions (e.g. ethno-linguistic and/or religious) contributed significantly to the onset of civil conflict, in others such factors did not figure out prominently. And in still other cases, political factors (e.g., nature of political system or unequal political rights and privileges among various groups) played a significant role but were hardly present in other cases. Some civil wars have witnessed active external interventions while others have not. [20]

20. For a recent review of the civil war literature, see P. Collier and N. Sambanis, (eds), *Understanding Civil War, Evidence and Analysis* Vs 1 and 2 (The World Bank 2005) and M. Berdal, and D.M. Malone (eds) *Greed and Grievance: Economic Agendas in Civil Wars*. (Lynne Reinner Publishers, 2000); and C. J. Arnson and I.W. Zartman (eds), *Rethinking the Economics of War, The Intersection of Need, Creed and Greed* (Woodrow Wilson Center Press and the Johns Hopkins Press, 2005).The crucial role of economic greed (in contrast with the political grievance) has been stressed in particular by P. Collier and A. Hoefler. (See their paper, 'Greed and Grievance in Civil War," *Oxford Economic Papers*, V.56. No. 4, October 2004). According to their findings (embodied in the so-called CH model) the higher the level of per capita income, the more robust the rate of growth, the smaller the ratio of primary commodities to GDP, the smaller the size of the population, the higher the level of education and the longer the period that has elapsed time since the last war, the lesser the risk of a civil conflict breaking out. On the other hand, ethnic dominance, i.e., where the single largest ethnic or ethno/linguistic group comprises between 45 and 90 percent of the population, raises the risk of civil conflict and so does active financial support extended by the Diaspora to the rebel group. Investigating the role of external interventions (which the CH model neglected) certain researchers have concluded that such interventions are less likely in ethnic wars or in regions that are democratic or where the state has a strong military. However, for a given level of ethnic polarization, external intervention will prolong the duration of the civil war. On the role of ethnicity certain studies point out that it is shaped by conflict rather than the other war round; others find that it does play a central role in certain conflicts. Some indices of religious polarization that prove to be insignificant when all civil wars are considered have a positive and significant relevance in the case of civil wars in which ethnicity plays a role. (see I. Elbadawi and N. Sambanis, "External Interventions and the Duration of Civil War,"*World Bank Policy Research Working Paper* 2433 (2000); D. Keen, "Incentives and Disentwines for Violence," M. Berdal, and D.M. Malone (eds), *Greed and Grievance: Economic Agendas in Civil Wars*. (Lynee Reinner Publishers, 2000): N. Sambanis, "Ethnic War: A Theoretical and Empirical Enquiry into its Causes,"DECRG World Bank paper (2000); and M. Reynal-Querol, "Ethnicity, Political Systems and Civil Wars," *Journal of Conflict Resolution*, V. 46, No. 1, 2002. The latter paper finds that religious /animist polarization, rather than ethno-linguistic fragmentation, is the relevant index that captures social conflict. According to the index the author adopts, the degree of polarization depends upon two variables: the number of different social groups and their respective shares in total population. The point of maximum tension is reached when there are two social groups of equal size.

How long a civil conflict endures is also influenced by many factors. Among these factors is economic greed in that war economies become lucrative sources of income and wealth for the warring parties; external interventions whereby the interests of the intervening powers would favor prolongation of the war; ethno/linguistic and/or religious conflicts which prove difficult to settle as well as the influence of the Diasporas to the extent they constitute a significant source of funding for rebel or opposition movements. But again, the relative significance of these factors differs from one case to another.[21]

Economic factors did not play a determining role in the onset of the Lebanese civil war. At the time that it broke out, Lebanon had been enjoying, as already observed, one of the highest levels of per capita income among developing economies as a result of robust economic growth in the preceding two decades. A small country with a relatively small population, limited natural resources and a trade and services oriented economy; the potential underlying economic motives for civil conflict were weak.[22] Rather, as noted in section I, the primary causes of the civil war were religious divisions (sectarianism) and the state/PLO confrontations with its associated external interventions, principally Syrian and Israeli that combined to ignite the conflict. [23] These confrontations served to inflame an already tense political situation arising from the simmering domestic disputes over sectarian power sharing. The Christian/Muslim religious division (akin to ethno/linguistic divisions in other countries) which on the eve of the civil war was roughly 45–55 percent respectively appears to have been conducive for the outbreak of the Lebanese civil war. Empirical cross country studies on the role of social fractionalization or

21. For references on the factors affecting the duration of civil war see previous footnote.

22. Applying the CH model (which stresses economic factors) to the Lebanese case suggests a very low probability of conflict breaking out in the years immediately preceding the actual onset of the war in 1975. On the basis of available data it predicts for 1970 a probability of only 2.6% for a civil war outbreak, bearing in mind that the calculations of probability are based on five-year intervals prior to the outbreak of the conflict. This is less than the mean probability for countries that did not experience civil wars. See S. Makdisi and R. Sadaka "The Lebanese Civil War, 1975–1990," P. Collier and N. Sambanis, (eds), *Understanding Civil War: Evidence and Analysis*, V. 2 (The World Bank, 2005).

23. For a detailed review of the causes of the civil war see S. Makdisi and R. Sadaka "The Lebanese Civil War, 1975–1990"

polarization in the onset of civil conflict lend support to the potentially high risk that a social division, similar to Lebanon's, carries in this regard. [24]

Once the war broke out, economic greed associated with the financial benefits accruing to the warring parties and their leadership became increasingly a major factor in sustaining it for 16 years.[25] At the same time, multiple external interventions directly on the part of Syria and Israel and indirectly on the part of others not only helped ignite the war but also to prolong its duration: the main militias were able to secure sufficient resources from Arab and non-Arab countries to finance their costly military and civilian operations, and in the process their leaders and henchmen managed to amass substantial personal wealth. The fact that the war was fought along largely sectarian lines facilitated Syrian and Israeli interventions in pursuit of their own vested interests. Their opposing objectives helped create a *modus vivandi* which helped prolong the war as long as the Lebanese parties concerned could not independently arrive at national reconciliation. Empirical studies indicate that the average length of a civil war, which experienced external interventions, is nine years (Lebanon's 16 years), while wars in which there were no such interventions had an average length of 1.5 years.[26]

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24. Lebanon's religious division fit in nicely with the ethno-linguistic dominance of the CH model which raises the risk of conflict. Also it places the index of polarization adopted by Reynal-Querol near its point of maximum political tension (see her paper "Ethnicity, political System and Civil Wars"). It should be mentioned though that in this paper religious polarization is assigned a more important role in civil conflict than linguistic differences, bearing in mind that the effect of religious polarization on the incidence of ethnic civil wars is reduced where consociational democracy prevails.

25. For details, see Makdisi and Sadaka, "The Lebanese Civil War, 1975–1990".

26. See I. Elbadawi and N. Sambanis, "External Interventions and the Duration of Civil Wars," paper presented at the World Bank conference on the Economics and Politics of Civil Conflicts, Princeton University, March 18–19, 2000.

Political Fragmentation and Economic Impact

The war led to political fragmentation and consequently a greatly weakened central authority. Various parts of the country came under the control of the warring militias and/or the Syrian forces that entered Lebanon in 1976, ostensibly at the request of the Lebanese authorities. Over the course of the conflict Syria shifted alliances with Lebanese and Palestinian parties. Israel for its part intervened directly on several occasions. In 1982 it invaded Lebanon and laid siege to Beirut. While it supported Lebanese parties in conflict with the PLO, it did not fail to play one Lebanese party against another, and there was no shortage of intra-militia fighting within each of the two major camps of the civil war. By the time the conflict ended, effectively in 1990, most public sector institutions were in need of major administrative overhaul and reform, within of course the imposed constraints of the time honored sectarian approach (see section III).

The disastrous impact of the civil war was multifaceted. Tremendous loss of lives apart (estimated at about 150000 or 5 percent of the resident population towards the end of the war), downtown Beirut and whole villages and towns were completely destroyed and the infrastructure of the country severely damaged. The amount of forgone production as a result of the destruction and dislocations the economy had to sustain was huge though its estimates depend upon the assumed rate of growth that would have prevailed in the absence of the war. For example, adopting a reasonable 4 percent annual rate (in comparison with over 6 percent of the pre-war annual rate) would yield forgone output of about $30 billion at 1974 prices (for 1974 GDP was estimated at about $ 3.5 billion). Estimates of real per capita GDP for 1990 (admittedly they may include a wide margin of error) indicate that it was about one fifth of its level for 1974. In the aftermath of the Israeli invasion of 1982 and the consequent intensification of the political/military conflict, the financial situation began to deteriorate rapidly. Budgetary deficits increased and the Lebanese pound depreciated quickly accompanied by mounting inflation. Real wages suffered and socio-economic conditions worsened. While a weakened state attempted to counter the deteriorating economic and financial situation, at times successfully, it was the resilience of the private sector, including an expanding

informal sector, that prevented a total collapse of the national economy, of course at a substantial social and economic cost.[27]

Settlement of the Conflict: The Taif Accord

The Taif Accord that formally put an end to the civil conflict, amounted to a major readjustment in the sectarian formula for power sharing in favor of the Muslim community rendering it more equitable between the three largest religious communities, a long standing demand of the pre-war years. In consequence, the position of the prime minister (Sunni Muslim) and the speaker of the house (Shi'a Muslim) were strengthened while some of the privileges of the president (Maronite Christian) were curtailed[28]. The council of ministers (evenly divided between the two communities) was collectively given executive authority. Furthermore, instead of the small advantage previously enjoyed by the combined Christian community in parliament (a 5 to 4 majority), the Accord specifies equal representation for the two communities, albeit with a finely tuned formula for the distribution of seats among the various religious sects. Thus, while the Taif Accord envisaged a more collegiate political governance, the essential features of the sectarian system remain unchanged.

Significantly, the Taif Accord also allowed for the temporary stay of Syrian troops in Lebanon to help establish order. Two years after the election of a new president, the formation of a government of national reconciliation and approval of the constitutional amendments in accordance with the Accord (approved August 21, 1990 and singed into Law by the president on Sept. 21, 1990), the Syrian troops were to be redeployed to the Beqa's valley in Eastern Lebanon. Their eventual total withdrawal from Lebanon was made subject to agreement between the two

27. For a detailed analysis of the war period, see S. Makdisi, *The Lessons of Lebanon, the Economics of War and Development*, Chapter two.

28. To illustrate, under the pre-Taif constitution, the President of the Republic appointed cabinet ministers and designated one of them to serve as prime minister. The president chaired the council of ministers. In contrast, the constitution based on the Taif Accord stipulates that the prime minister shall be designated by the president of the republic on the basis of binding consultations with members of parliament. The council of ministers is chaired by the prime minister unless the president chooses to attend its meetings in which cases the president presides. In practice over the post-civil war period, as a whole,, the president has chosen more often than not to chair the council of ministers.

governments. As already noted, effectively total withdrawal of Syrian troops from Lebanon, did not take place until April 2005 and then only under Western pressure reinforced by repeated street demonstrations following the Hariri assassination demanding their withdrawal.

Initial resort to Syrian security assistance seems in line with the conclusion of a recent study on the successful settlement of civil wars, namely, that what ever the reasons that bring combatants to the negotiating table and their signing of power sharing pacts, the successful settlement of such wars would still require third party security guarantees concerning the safety of the combatants and the enforceability of the agreed pacts.[29] On the other hand, it is also important to understand the nature, extent and duration of third party (external) security intervention. The Lebanese case demonstrates that this intervention could go beyond its originally intended objectives: Until the withdrawal of its troops in April 2005, Syria had exercised a determining influence on Lebanon's post-war political developments. Hence, in as much as third party security guarantees may be necessary to help post conflict governments, enforce power-sharing pacts and maintain domestic peace, it is equally important to ensure that the third party entrusted with this task does not, for self serving reasons, become perennially embroiled in domestic political processes and outcomes. This, of course, would depend on the nature of the agreed political compromises that paved the way for the settlement of civil conflicts and whether they are inherently stable in the long run, as well as the vested interests of the influential outside powers involved in bringing about the settlement (see below).

Rebuilding of the State and National Economy in the Post Civil War Period

Sixteen years have now passed since the settlement of the civil conflict. But in the sixteenth year Lebanon could not escape the war waged by Israel whose full ramifications for Lebanon and the region are yet to unfold. Whatever its ultimate outcome, I do not expect it to trigger a new civil war despite the deep domestic

29. See Barbara F. Walter, *Committing to Peace, The Successful Settlement of Civil Wars* (Princeton University Press, 2002), pp. 90, 91 and 160, 161.

political divisions that openly preceded and silently accompanied its outbreak, and moreover have continued after the UN imposed ceasefire effective August 14, 2006 (UN Security Resolution 1701) and as of this writing (March 2007) have yet to be settled.[30] The main reason for this contention is that the civil war and its disastrous consequences remain vivid in the Lebanese collective memory. In

30. The parliamentary elections of 2005 led to alliances of former civil war adversaries forged in response to mutual political interests. Subsequently there emerged two opposing political camps with differing political agendas. The first camp, supported principally by the US, France and the UK, included and alliance of the Hariri political group (The Future Movement- Sunni) the Progressive Socialist Party (PSP), led by Walid Jumblat (Druze leader) and a resurgent Lebanese Forces (LF-Maronite) led by Samir Jeajea along with a grouping of various Christian politicians who had been critical of the Syrian presence in Lebanon. Together they came to comprise a small majority in Parliament. The PSP and LF had been major adversaries of the civil war. The second camp included the Shiite alliance, supported by Iran and Syria, comprising Hizbollah (led by Hasan Nasrallah) and Amal (headed by the speaker of the house, Nabih Birry,) and at some distance from them the Free National Movement led by Michel Aoun which ran in the elections on its own platform and swept the mainly Christian mountain regions. On February 6, 2006 General Aoun and Hasan Nasrullah came closer together by singing an agreement of understanding on various major national issues facing the country. Basic disagreements between the two camps related, among other things, to (a) the issue of Lebanon's relationship with Syria (as a corollary of the Hariri assassination Syria has been accused by the Hariri group and its allies of responsibility for this and subsequent assassinations); (b) the statutes governing the creation of the Tribunal of an international character to try those responsible for the Hariri assassination (UN Security Resolutions 1595 of April 7 and 1664 of March 30, 2006); the latter called on the secretary general to negotiate with the Lebanese government for the creation of the Tribunal; its approval by the Lebanese parliament was required; and (c) the question of disarming Hizobollah which hitherto had been considered by most political parties as a resistance movement to Israel and hence justified in carrying arms; the PSP in particular changed its traditional position on this issue demanding that Hizbollah give up its arms.In February 2006 the first camp began to pressure unsuccessfully for the removal from office of the President of the Republic, considered an ally of Syria while Hizbollah and Amal decried the explicit intervention by the US and France in Lebanon's internal affairs. Beginning March , 2006 the Speaker of the House convened a series of meetings (under the slogan of national dialogue) that included the major political leaders to try to resolve pending national issues but this initiative was completely overtaken by the Israeli war on Lebanon in July of that year and subsequent efforts at reviving this dialogue have failed. On November 11 2006 the Shi'a ministers resigned from the cabinet. Ostensibly the resignation (along with one non-Shia' minister) was due to disagreements with the Prime Minister who called for a quick adoption of the statutes of the Tribunal of an international character as worked out by the Security Council and sent to the Lebanese government for approval in accordance with Lebanese constitutional procedures. The resigned ministers wished to introduce modifications to the statutes of the Tribunal that according to them would act to safeguard it against misuse for purely political purposes. While the majority bloc has been demanding that the speaker of the house convene parliament to vote on the Tribunal, the speaker has taken the position that it would be unconstitutional to act on this treaty in parliament if not forwarded by the president of the republic. On April 4, 2007 the majority bloc in parliament took the extra-ordinary step of submitting a petition to the secretary-general of the United Nations requesting that the UN security council take appropriate measures for the creation of the Tribunal independently of the Lebanese parliament. As of this writing, the political outcome of all these developments remains uncertain.

turn, this would help check the divisive impact on the domestic political scene of regional conflicts: whether the older Arab-Israeli conflict or the more recent US/Israeli-Iranian confrontation and the related Israeli war of summer 2006.

While huge shortcomings have characterized Lebanon's political governance after the civil war, there continues to be a strong desire among major political/religious groups to make consociational democracy work, no matter how imperfectly, with its implied balance of power sharing among these groups. This desire is partly based in their mutual concern that no one single domestic group should emerge as the dominant political player. At the same time, while the risk of a renewed civil conflict may not appear to be high, its possible occurrence cannot be altogether dismissed particularly if the leaders of any one of the main political/religious groups—supported by outside powers—should feel that their stake in power sharing is threatened. Hence, the question of the long-term viability of sectarian power-sharing arrangements in Lebanon remains to be addressed, especially that the dangers of strong destabilizing external influences may always re-emerge. The basis for sustained long-term stability is yet to be laid, and the viable rebuilding of post war Lebanon still awaits a final resolution of the fundamental weaknesses of its political system and institutions.

I shall take up four fundamental issues related to national rebuilding that need to be addressed if long term national stability is to be established: (a) political governance/stability, (b) the quality of growth and economic performance, (c) the dominance of the private sector and the issue of sustainable development, and (d) the challenges of the new regional and global environments. The issue of political governance, as will become apparent, underlies all the above questions.

Political Governance/Stability

An ongoing open debate is whether "consociational democracy" as practiced in Lebanon is viable in the long run. Advocates of this type of democracy across the sectarian divide believe that in a multi-religious society, such as Lebanon's, it is the most appropriate form of democracy. Their reasoning is that mutually accepted political concessions among the various religious communities safeguard their

respective identities and rights in power sharing, while allowing for parliamentary elections and, in principle, the trappings of modern democracies. In the same vein, certain observers argue further that the elimination of the sectarian system could lead to the political—and possibly cultural—hegemony of a single religious community, or even to the emergence of a military dictatorship. In consequence, Lebanon's cultural wealth associated with the existence of various religious communities and the measure of freedom that the delicate sectarian balance has provided would be greatly diminished. Thus, according to this argument, husbanding the sectarian system by redressing whatever elements of instability it might embody would be a preferable alternative to doing away with it altogether. The Taif Accord is seen as an attempt in this direction, though it has not been properly implemented.

If this Accord were necessary for a formal settlement of the conflict, the question remains whether it provides the conditions for long-term stability. While the readjustment of political power sharing among the religious communities was intended to contribute to the stability of the sectarian system, the post-Taif experience reveals the persistence of important potential elements of instability. The council of ministers has yet to assume the role assigned to it under the Taif Accord as the collective executive governing body. Until Syrian troop withdrawal in April 2005 and the consequent drastic curtailment of Syrian influence, the phenomenon of "troika rule " (the troika comprising the President, the Speaker of Parliament and the Prime Minister all of whom were to varying degrees allies of Syria) emerged and had generally tended to dominate political life. Without going into the reasons behind it, what was significant about the Troika was that not infrequently disagreements among its members were not necessarily settled within the council of ministers or parliament, but outside these institutions. And when failing to resolve their disagreements, the Syrian authorities imposed a settlement. Syria thus became the dominant domestic political player and stabilizing force serving, of course, its own interests.

Some political observers, across the sectarian divide, argue that Lebanon's sectarian system is not necessarily unstable. They attribute the lack of stability in

the post-Taif era until Syria's withdrawal to its political and military presence. Not surprisingly, Syria had supported, to varying degrees, political parties, groupings and actors it had regarded as reliable allies, and opposed the resurgence of those it considered unfriendly to its interests in Lebanon and in the region. Syrian support often translated into its Lebanese allies occupying high political, administrative and cabinet, positions. Even among its allies, Syria tended to maintain a balance of power which it did not hesitate to alter in light of its evolving interests. This situation, it is pointed out, rendered the Lebanese domestic political situation potentially unstable, even though the security situation was more or less under control.

Following the withdrawal of Syrian troops there emerged, as noted earlier, a new political environment marred by deep political divisions, intensive external political interventions and a greatly weakened role of the government as a collective executive body. While the Israeli war on Lebanon in July 2006 did not fulfill Israel's declared objectives, at least in the short run, it did lead to the wider involvement of outside powers in the internal affairs of Lebanon. It also revealed, once again, the vulnerability of Lebanon to destabilizing and in this case tragic interventions.

Whatever the eventual ramifications of this war, one important question that has arisen since the Syrian withdrawal and tragically underscored by the Israeli attack is whether the post-Taif political system is inherently capable of accommodating major internal political divisions without inviting (willingly or unwillingly) outside interventions which could take the form not simply of political pressure, but of military action as well.[31] In my opinion, irrespective of the role of external influences in preventing stability, there exist inherent elements of instability associated with the nature of the political system itself as demonstrated

31. Resolution 1701 which called for a cessation of hostilities between Israel and Hizbollah did not define clearly the enhanced role of the UN Peacekeeping Forces (UNIFL) in southern Lebanon. As some observers put it, this role, kept deliberately vague, should be properly amended (under chapter 6 rather than 7) to take account of Lebanon's internal dynamics in order to avert the possibility of a new round of violence.(See Timur Goksel and Karim Makdisi "Vague UN Plan Not Realistic," *Toronto Star*, August 22, 2006). In practice, given the Western position on the war, such an amendment is very difficult to achieve.

by developments subsequent to the Syrian troop withdrawal. For whatever its merits, the finely tuned sharing of political power among Lebanon's religious communities remains inherently discriminatory. Sectarianism has continued to act as the mainstay of political behavior, the Taif Accord notwithstanding. Though there exists at present a general acceptance of this Accord and the form of "consociational democracy" it carries, there is no guarantee that sectarianism will not always be subject to exploitation by political groups to serve their own vested interests or agenda even at the cost of destabilizing the political system. The political events of 2005 and 2006 illustrate this type of destabilization. The long-term viability of re-adjusted sectarian power sharing arrangement that ended the civil war is a question that, I believe, needs to be thoroughly examined. Here a few remarks will suffice.

To begin with, the system has been undermined by poor political governance: generally inefficient governmental institutions and pervasive corruption.[32] According to World Bank indicators on corruption for 2005, Lebanon did not rank well even by comparison with other countries of the region. Indeed, the data show that the level of corruption worsened over the period 1996-2005.[33] No doubt sectarianism contributed to the prevalence of an inefficient public sector marred by corruption. But so did the familial and clientelist nature of the political system. The entry of war militia leaders, with their own agendas, into the post war governments, along side super rich individuals whose use of political money to achieve their objectives became widespread further strengthening the "culture"

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32. There are various indicators of governance which I do not go into here. For an overview of what good governance implies in post conflict countries, see T. Bebiel and U.Terlinden, "Governance and Democracy in Post Conflict Situations: Entry Points and Options for External Support," *Forum* (ERF Newsletter, V. eleven, No. four, Winter 2004). The authors take up four dimensions of the governance issue: (1) horizontal division of power and inter-ethnic cooperation, i.e. Consociationalism; (2) vertical division of power through integrative decentralization; (3) democratization and elections; and (4) rule of law.

33. Whereas for 1996 Lebanon's percentile rank stood at 51.3, (i.e the percentage of countries worldwide that rate below Lebanon), compared with the Arab region's 46.3, for 2005 Lebanon's rank had declined to 44.8 (39.9 for 2004) compared with the region's rank of 52.1. For both years the average percentile rank for Lebanon's corresponding income category (upper middle income) was 60.1 and 64.9 respectively. (Source: World Bank Institute data on, governance and anticorruption, 2005, and D. Kaufmann, A. Kraay, and M. Mastruzzi. 2003 *Governance Indicators for 1996–2003)*

of corruption. Whatever the merits of Lebanon's "consociational democracy," poor governance has reinforced its low-level efficacy. Nonetheless, poor governance, on its own, would not necessarily lead to fundamental changes in the political system especially in the absence of a nationally agreed upon alternative.

In principle, if they agree, major political players may be able to implement measures that would (at least for the short run) improve the stability of the prevailing system. For example, there is wide agreement that a new electoral law that would ensure a fairer parliamentary representation should be adopted. Under Syrian influence, the electoral laws had been tailored to serve the vested interests of particular groups. Reforming the electoral law would give Parliament and by extension government greater legitimacy and render it more accountable.[34]

Whatever reforms are deemed necessary to enhance stability in the foreseeable future, over the long run this stability, it seems to me, can only be achieved if the present power sharing arrangements give way to a more democratic and secular system.[35] I submit, however, that eliminating the confessional features of the system would not, on its own, lead to firm long-term political stability and better governance. It must be considered as part of a broad-based reform of the management of government and its institutions, essentially laying the grounds for the creation of a new political/administrative culture. Otherwise, simply discarding the sectarian formula in favor of a non-confessional parliamentary system might only amount to a different political power structure and alliances that are outwardly non-sectarian, but effectively behave under sectarian influences, with no guarantee of improved political governance. In fact, it is possible that the checks and balances of the Lebanese sectarian system that have allowed a good measure of political freedom and guaranteed the right of free religious expression, may give way to the emergence of a political regime that, in practice, will be less

34. A national commission was appointed in July 2005 to look into this matter; it submitted its recommendations to the government on June 1, 2006. It remains to be seen whether in fact a new electoral law that would ensure a fairer representation will be enacted.

35. This matter is discussed in Walter's study cited above. The author states that consociational power-sharing solutions are appealing to groups who fear political domination. But power-sharing pacts are not stable over time unless they evolve into liberal and open political institutions (pp.167, 168).

democratic than the existing one.[36]

Until a broad-based and viable political reform is put in place, the question of what I referred to elsewhere, as "unstable political equilibrium" facing the Lebanese political system would not be laid to rest.[37] Indeed the political events of 2005 and 2006 demonstrated how divisions among major political and/or religious groups can quickly threaten to destabilize the existing political set-up and accordingly how fragile it remains to external influences and interventions. One major lesson to be drawn from the vicious war waged by Israel in July 2006 with open Western support is that pending major long term political reforms there is urgent need to improve the workings of Lebanon's political institutions by rendering them more open and accommodative of political conflicts and therefore more capable in dealing with external destabilizing influences.

Growth and Macro-Economic Performance (1991–2006)

Four phases of growth may be discerned since the end of the civil war (see appendix table).

The first phase, stretching from 1991 though 1994, witnessed an accelerating growth rate peaking at 8 percent in 1994; it was induced by increasing public sector expenditure and private sector investments led by the construction sector. The increased expenditure took up existing slack in the post war economy while private sector expectations were initially positive regarding future prospects.

The second phase, from 1995 to 2000, saw a gradually declining rate becoming slightly negative in 2000. This may be partly attributable to continued borrowing by the government at relatively high (though over time declining) real interest rates to finance persistent budgetary deficits, with a consequent dramatic rise in public debt (climbing from about 48 percent of GDP for 1992 to a little over

36. Some political analysts have proposed a bi-cameral system as one step in the direction of reforming Lebanon's political system. The upper chamber, comprising the elected representatives of the various religious groups will be vested with the powers to decide on major national questions facing the country. The lower chamber will include members elected on a non-confessional basis subject to an electoral law that would ensure appropriate representation of the various regions and districts.

37. See S. Makdisi, *The Lessons of Lebanon, the Economics of War and Development*, p.166.

150 percent for 2000) that in turn led to a "crowding-out effect" of private sector investments, and the persistence of generally relatively high borrowing costs for private enterprises (see Graph I). Other contributing factors to the declining rate of growth were prevailing regional political uncertainties and clashes associated with the Arab/Israeli conflict, which tended to restrain the flow of private investment. Furthermore, the decline in the oil revenues of the Gulf regions from 1990–99 affected negatively regional investments by the Gulf countries and the in flow of expatriate remittances from the region. In addition, while the rehabilitation of the infra structure had a positive impact on the investment climate, lack of progress in administrative and political reform, not to mention increasing corruption, influenced this climate negatively.

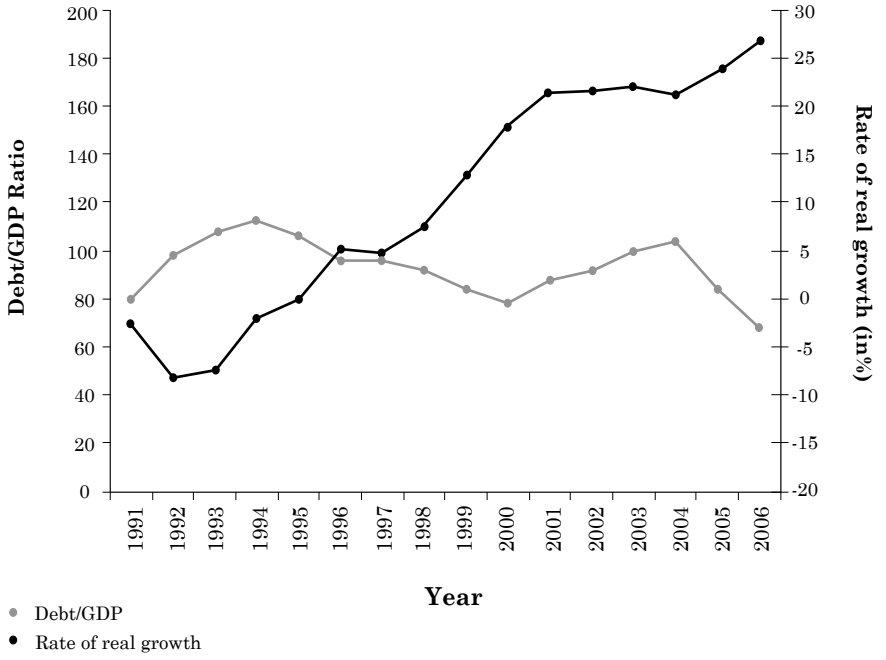
The third phase, from 2001 through 2004, experienced a recovery of the growth rate reaching an estimated 5 percent in 2004. This improvement is mainly related however to post Sept. 11 developments that caused a reflow of Arab capital towards Lebanon, as well as other Arab countries, especially in the real estate sector and of tourists from the Gulf region. This, in turn, has contributed to the expansion of bank deposits easing the pressure on banks in accommodation budgetary deficits.

The fourth phase (2005–06) witnessed human tragedies and vast economic destructions (infra-structure, dwellings, factories, other enterprises, etc.) brought about by the war waged by Israel in summer 2006. For 2005, the rate of growth is estimated to have dropped to 1 percent as a result of the political/security turmoil following the assassination of Prime Minister Hariri. For 2006, as a consequence of the war's extensive damage of physical capital (estimated at about $2.5 billion) and the disruption of economic activity, the rate of growth has turned negative estimated at about -3 percent thereby putting a temporary halt to the process of economic recovery.[38] Sixteen years after the end of the civil war, the Lebanese

38. For the whole period (1992–2006) the annual rate of growth averaged about 3.4 percent (excluding 2006 the average rate of growth would rise to 3.8 percent). In late September 2005, the government published a new national account series for the period 1997–2002. (see Ministry of Economy and Trade, *Lebanon's Economic Accounts, 1997–2002*, July 2005). For this period the new estimates for GDP are on average about $0.65 billion or 4 percent greater than the previous estimates. However, the trend of the real rate of growth is basically similar except for 2001. According to the new series, for the period 1998–2002, the average rate of growth was 2 percent compared with the previous estimate of 1.5 percent

economy thus faces anew the challenges of economic recovery and reconstruction especially in the regions that have been devastated by Israeli air attacks. Equally importantly, if not more so, is the challenge of political reconstruction alluded to in the previous section.

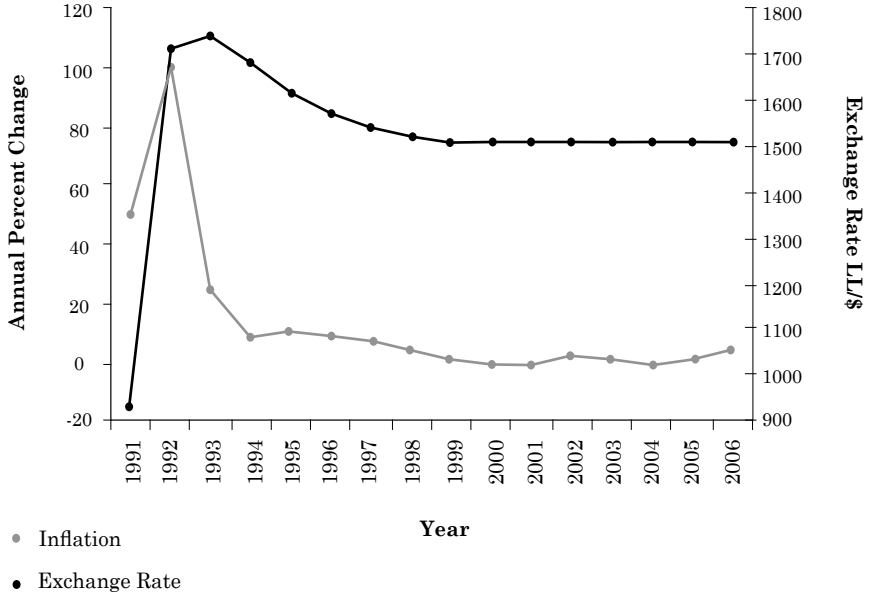
Graph I Dept/GDP ratio versus rate of real growth



The post war macro-economic performance through 2006 is mixed. On the positive side, anchoring the pound to the US dollar beginning late 1992[39] helped restore exchange rate stability and gradually bring down the rate of inflation from its high levels in the immediate post war years, a peak of 100 percent for 1992, to low levels by the end of the decade, estimated at close to zero percent for 1999–2001 and remaining at low levels in subsequent years through 2005 but rising in 2006 to around 6 percent.

39. The exchange rate was initially pegged to the dollar with a crawling-up policy, i.e, gradual upward adjustment of the pound vis-à-vis the dollar throughout 1993–98. In late 1998, this policy was discontinued in favor of a fixed rate vis-à-vis the US Dollar which as has since been maintained at USD = 1507 LL with very narrow margins around parity.

Graph II Exchange Rate versus inflation (1991–2006)



On the negative side, persistent large budgetary deficits kept the level of public debt rising to reach about 175 percent of GDP for 2005 and 186 percent for 2006, among the highest in the world (for 2005 debt service payments comprised a little less than one half of budgetary revenues). Furthermore, in so far as the fiscal situation was not brought under control, exchange rate stabilization carried with it substantial economic costs. The authorities tended to maintain relatively high real rates of interest on TB's not only to ensure bank accommodation of the budgetary deficits but also to defend the pound with a consequent high borrowing costs for the private sector from the banking system. In addition, adverse domestic political and economic developments were sometimes reflected in heavy and sustained pressure on the pound which the Central Bank was forced to counter by sustained intervention on the foreign exchange market. At times, this was accomplished at the cost of a substantial and threatening decline in its net foreign reserves prompting outside financial support to avert a potential domestic economic/

financial crisis.[40] Altogether the emerging unhealthy macro fiscal environment did not only contribute to the overall decline in the rate of growth, particularly after 1995, but also exacerbated the unemployment problem and encouraged the emigration of Lebanese skills.[41]

What should be underscored is that in the context of the post-war political system the checks and balances that could have prevented the emergence of major macro-economic imbalances seem to have been weakened at time when regional economic conditions had become less favorable while Lebanon was in need of implementing a proper coordination of its economic and reconstruction policies. Budgetary outcomes were not governed by built—in institutional restraints against financial indiscipline. Despite attempts at fiscal reform to a large extent fiscal matters continued to be subject to a political and administrative decision-making process in a political environment that did not impose the required accountability, not to mention conflict of interest on the part of high governmental officials and widespread corruption in the public sector. It is an open question whether the war of 2006 will force a positive change in the management of the country's political and consequently fiscal affairs.

However, irrespective of the macro-economic and growth outcomes in the post war period, what is equally significant is the quality of development. While in a few areas such as health and education, progress has been achieved; in other areas, little if any improvement was accomplished or else it noticeably deteriorated as in the case of the environment, income distribution and the level of poverty

40. Major donor meetings called by President Chirac (Paris II and Paris III) were held respectively on November 23, 2002 and January 25, 2006 resulting in billions of dollars in pledged aid. They were intended to help the Lebanese authorities stabilize the debt dynamics and shore up confidence in the Lebanese pound. Persisting political infighting and governmental inefficiencies and constraints did not permit the attainment of the objectives of the first meeting. It remains to be seen whether the second meeting will lead to better results. In any case, in attempting to attain sustainable growth donor aid does not substitute for the implementation of appropriate domestic policies and good institutional performance. This was and remains the major challenge facing Lebanon in the post-civil war period

41. The real rate of growth averaged annually 6.5 percent for the period 1992–95 declining to 2.3 percent for 1996–2000 and rising to 3.4 percent for 2001–04 only to fall back to an average of -2.0 percent for 2005-06 as a result of the major political and military events that took place in those two years . For the whole period, 1996–2006, the rate of growth averaged annually 2.3 percent and if we exclude 2006 as an exceptional war year the average would rise slightly to 2.8 percent.

accompanied by increasing concentration of political and economic power in the hands of the few.[42] This matter is directly attributable to poor institutional performance and to a political set-up where the distinction between public and private interest, to say the least, is blurred.

As already observed, one of the major challenges that, all along, Lebanon has been facing (reinforced by the major political developments of 2005 and more importantly the war of 2006) is how to reform its political institutions and raise the level of political governance so as to render the decision–making process more accountable and transparent. This would enhance developmental performance and specifically the quality of development.

On the Dominance of the Private Sector and Sustainable Development

The fact that the Lebanese private sector has played and continues to play the central role in the national economy carries with it two important implications: the first is that, unlike other countries where the public sector had been dominant, the role of the Lebanese state in the economic domain does not need to change significantly in compliance with the international calls (and pressures) to give an increasing role to the private sector. Indeed, the issue Lebanon has been facing in the civil war period is that the dynamism of its private sector has not, as yet, been matched by a political/administrative performance that would ensure, in case of conflict, the prevalence of the public interest over the private. If anything, the performance of the public sector, characterized by a relatively higher degree of corruption, is generally less adequate than in the pre-war period.

Public interest has often been sacrificed in favor of private interests, either with political protection or with the outright involvement of influential political actors that permitted frequent violations or inadequate implementation of existing rules and regulations.[43] To the extent the distinction between the private and public interest has been and remains blurred and the required guarantees to keep

42. See S. Makdisi, *The Lessons of Lebanon,The Economics of War and Development*, pp.148–57

43. Environmental degradation, deforestation and illegal exploitation of other natural resources, inappropriate, not to mention chaotic, urban and rural planning, are glaring illustrations of the disregard of the public interest in favor of the private.

them separate are not in place, the public good will continue to suffer and so will the quality of development. Institutional performance is an area awaiting major reform.

This matter leads to the second implication related to the impact of poor political governance on public policy. As noted above, poor governance eventually contributed to major economic imbalances. Equally importantly, this has been paralleled by the lack of a coherent national policy focusing on sustainable development[44]. While recognizing progress in specific areas, such as health and education, it would not be difficult to state that the Lebanese economy has been less than successful in becoming a modern one in which the quality of development, including questions of social equity, occupy a central place. Indeed, if the present rate of environmental degradation continues, along with inefficient and hence costly institutional performance, one cannot but conclude that the Lebanese economy—irrespective of its purely macro-economic performance—will in fact be moving away from, instead of towards, a modern economy. A basic condition for assuring that this will not be the case would be a drastic improvement in Lebanese political and institutional performance.

The significance of this matter is that unless checked, the worsening socio-economic conditions carry with them potential elements of instability in addition to those already embodied in the sectarian system.

On the New Global Environment

Lebanon and other developing countries have to cope with the influences of powerful industrial countries, in particular the US, that dominate the political and economic agenda of globalization. At the economic level, they may not be fully convinced of the policy dicta of international monetary and trade organizations entrusted with the task of managing the rules of globalization: notably, the almost complete opening up of their national economies and concomitantly transforming them into market oriented economies. Nonetheless, in designing their own national

44. Empirical literature on development clearly demonstrates the key role of institutions in enhancing developmental performance (see for example, S. Knack and P. Keefer, " Institutional and Economic Performance: Cross Country Tests Using Alternative Institutional Measures,"*Politics and Economics* No.7. November 1995).

economic, developmental and social strategies they have to account for the policy agenda of these organizations. Some countries have been more successful than others in this endeavor.

Equally important, in this new open global environment a major issue that many developing countries have been facing is that the development of their political institutions has lagged behind the globalization of technology, trade and investment. This has tended to further weaken their capacity to govern in a globalized world that itself entails diminished national sovereignty of individual states. In other words, for many developing countries, globalization has come to imply a weakened ability to manage their national economy and to set their own national agenda, without being subject to major outside influences. In certain instances, their weakened capacity to govern (manifested, for example, in weak and /or lopsided development, non-democratic practices and /or domestic political tensions or violence) has been used as a pretext by outside powers to intervene, for self-serving purposes, sometimes via direct military action. The emerging global environment, therefore, has various implications to national building in developing countries (or rebuilding in the case of devastated economies) that would need to be thoroughly analyzed.[45]

Currently, in addition to Lebanon, Iraq and Sudan are obvious cases in point. The long lasting conflict between Northern and Southern Sudan was settled in January 2005 on the basis of a political and economic power sharing arrangement but not without substantial external pressure and involvement. In certain respects this arrangement is similar to the Taif Accord that settled the Lebanese civil conflict. Whether the Sudan settlement will prove successful in the future (the question is principally whether the South will secede or not) and

45. In a recent article in *Foreign Affairs* (S. Eizenstat, J. E. Porter, and V. Weinstein, "Rebuilding Weak States," January-February 2005) the authors argue that the crisis of governance in a large number of weak, impoverished states pauses a serious threat to US National Security. In meeting this challenge, they advocate a US strategy with a greater focus on economic development, security assistance and diplomacy (rather than reliance mainly on military power), but they do not exclude the use of military force when necessary to advance development. The conditions that would justify the use of force are not spelled out. What is intriguing, however, is their injection of "force" as a factor in development (albeit in the context of defending US national interest) presumably alongside capital, labor and technology.

to what extent this success will be dependent on outside assistance remains to be seen. An intriguing question is whether a successful broadly based and largely market oriented national economic development, as per the prevailing rules of globalization, would constitute a sufficient condition for Sudan's future stability.

As for Iraq, it is yet to be seen whether in the aftermath of the US/UK invasion in the spring of 2003 and its ensuing domestic violence the agreed political settlement (Federal Iraq with wide autonomy enjoyed by the Kurdish region) would eventually prove viable and lead to domestic stability. The Iraqi settlement is based, in practice if not formally, on ethno-religious power-sharing arrangements akin to those of Lebanon and Sudan though it is still uncertain whether they are generally acceptable to all major Iraqi communities. On the assumption that internal security is eventually restored, the question remains whether, as in the case of Sudan, the new political settlement would survive the absence of outside support, and to what extent a successful market oriented national economic development would contribute to sustained domestic stability. In itself, economic development, as the Lebanese case demonstrates, is not likely to be a sufficient condition for political stability. General acceptance of emerging political institutions that essentially are equitable and inclusive might be equally important if not more so.

For Lebanon, the impact of the new global environment clearly does not concern the issues of openness and the market orientation of its economy. These have been in place for a long time. Rather, the questions that need to be addressed are how this new environment will affect the performance and development of its political governance and domestic stability and how Lebanon can deal with regional challenges. Security Council Resolution No. 1559 which, among other things, calls for disarming Hizbollah has led to serious domestic political divisions and strained Syrian-Lebanese relationships. Domestically, the parliamentary elections carried out in May-June 2005 have brought about new political alliances, a new parliamentary majority and a new government all amenable to Western (specifically American and French), rather than Syrian, influences. Nonetheless, this did not prevent Israel from waging an all out war on Lebanon and in the

process destroying a substantial portion of its infrastructure as well as many villages, with the declared objective, among others, of implementing by force that part of Resolution 1559 pertaining to the disarming of Hizbollah which the Lebanese government had so far not carried out, preferring (and correctly so) to accomplish this objective through national dialogue in order to avert a potentially severe domestic conflict. If, as noted earlier, the capture of two Israeli soldiers were the immediate pretext for the attack (rather than negotiate with Hizbollah through a third party an exchange of Lebanese prisoners held by Israel), its wider and far-reaching regional objectives were clearly stated by both Israel and the US governments. The war waged by Israel is a cruel demonstration of the negative influences of the prevailing western dominated global environment.

As of this writing, it is too early to discern the ultimate ramifications of the war (which so far has failed to achieve its declared US/Israeli objectives) and whether it would result in greater political stability, at least in the short term. However, the war has compellingly brought forward the long-standing issue of how Lebanon can cope with ongoing regional conflicts that have a direct bearing on its own domestic political and economic situation. Lebanon cannot extricate itself from regional influences nor be neutral on the question of the Arab/Israeli conflict. But, improving the workings of its political institutions, even in a sectarian context, whereby they become more open, inclusive and capable of resolving national disputes, would strengthen its ability to withstand the disruptive impact of any regional conflict.

In the longer run, there is no substitute for substantive national reform leading to a more democratic and secular system with accountable political institutions that will permit Lebanon to take advantage of the benefits of globalization while minimizing its economic, political and human costs.

Concluding Remarks

The rebuilding of the post civil war Lebanese economy cannot be separated from the rebuilding of the post-war Lebanese state and political system. The post-war experience clearly indicates that macro-economic and developmental performances

are closely intertwined with political/institutional performance, a matter that presumably applies with equal force in other countries. What perhaps distinguishes the Lebanese case is the traditional dominance of the private sector and its close alliance with the ruling political coalitions. Indeed in the post–war period major political actors have emerged from the business class, albeit with clearly defined sectarian affiliations, and have come to share power in the re-adjusted sectarian system with militia leaders of the civil war, and traditional political families and parties whose power has relatively diminished. Until the withdrawal of Syrian troops in April 2005, Syria had the major influence on domestic political, and to a much lesser degree economic, outcomes. These are the developments that, up to the Syrian withdrawal, define the post war context within which the questions of national rebuilding had to be addressed.

Since then, the political context has changed dramatically as a result of the Hariri assassination, withdrawal of Syrian troops, the appointment by the UN of a Commission to investigate the assassination, new parliamentary elections resulting in new political alliances including political groups that previously had not been allowed or had been pressured not to participate directly in such elections, and most profoundly the war waged by Israel in July-August 2006 and the UNSC Resolution 1701. The latter, while intended to end hostilities by enhancing the role of UN peacekeeping forces in southern Lebanon, in its vagueness, carries with it the risks of potential pitfalls that, unless carefully avoided by the country's major political players, could threaten Lebanon's political stability. This is one of the most outstanding political challenges the country has come to face in the aftermath of the war.

Indeed this last war constitutes a watershed in Lebanon's development. It has brought forward with full force the dominant question of how to reconstruct the country's political institutions so that they become more inclusive of all political parties, both sectarian and secular, and more accountable and transparent in charting Lebanon's political future. I submit that the country has emerged from the war with a blurred national view of how to rebuild the state not only with the objective of becoming more capable in its role as overseer of equitable/sustainable

social and economic development but in coping with the fundamental regional challenges facing the country. In brief, the major question Lebanon now faces is how to substantially enhance the institutions of its consociational democracy (which all major political parties presumably embrace) as a transitory stage towards a more viable democratic system. Whether recent tragic developments will lead to the hoped for reform in Lebanon's political/administrative institutions remains to be seen. However, to be durable and beneficial, such reform, I believe, should reflect the end result of national dialogue and processes and not be externally imposed.

It is true that recent political and military developments have carried with them substantial destabilizing influences at the domestic level. But they are unlikely to provoke a new civil war. The devastations brought about by the 1975–90 civil conflict are still fresh in the Lebanese collective memory while the political parties are uncertain about the outcome of any new conflict. These are factors that reduce, but do not eliminate, the risk of a renewed civil conflict.

A successful national economic and social development would contribute to an enduring peace but would not necessarily overcome potential elements of instability in the political system nor necessarily shield it from external destabilizing influences. Only a successful resolution of the weaknesses of its political institutions—including in the longer term the move towards a more democratic, open and secular system—would ensure Lebanon's long-term political and economic stability in an increasingly integrated world. The political alternative, advocated by some quarters, of cantonization or highly decentralized federal system along sectarian lines has historically proved not to be viable.

Appendix Table
Lebanon Rate of Growth, Fiscal Operations, Public Debt, Inflation and Exchange Rate (1991–2006)

	Nominal GDP (USD Million)[46]	Rate of real growth (%)	Total Public Debt (USD Million) (end of period)	Debt Foreign Currency	Debt Domestic Currency	Debt/ GDP (%)	Inflation (YTY % Change)	Average Annual Exchange Rate (LL per US Dollar)
1991	4,452	n.a.	3,114	na	na	69.9	50.0	928.23
1992	5,546	4.5	2,635	na	na	47.5	99.8	1712.8
1993	7,535	7	3,821	na	na	50.7	24.7	1741.4
1994	9,110	8	6,557	772	5,785	72.0	8.0	1680.1
1995	11,119	6.5	8,870	1,305	7,565	79.8	10.6	1621.4
1996	12,992	4	13,008	1,908	11,100	100.1	8.9	1571.5
1997	15,595	4	15,390	2,432	12,958	98.7	7.7	1539.5
1998	16,909	3	18,555	4,166	14,389	109.7	4.5	1516.22
1999	17,013	1	22,365	5,842	16,525	131.5	0.2	1507.5
2000	16,679	-0.5	25,200	7,529	17,442	151.1	-0.4	1507.5
2001	17,065	2	28,312	10,223	18,052	165.9	-0.4	1507.5
2002	18,462	2.9	30,727	13,943	16,784	166.4	1.8	1507.5
2003	19,895	5	33,381	15,575	17,806	167.8	1.3	1507.5
2004	21,768	6	35,861	17,491	18,357	164.7	-1.3	1507.5
2005	22,052	1	38,508	19,609	18,899	174.6	0.3	1507.5
2006	22,300	-3.2		…	…	185.9	4.5	1507.5

46. Beginning 1997, a new series for GDP was published; hence they are not strictly comparable to the pre 1997 series. (See *Republic of Lebanon, Economic Accounts of Lebanon, 1997–2002*, (Beirut, July 2005).

Appendix Table
Lebanon Rate of Growth, Fiscal Operations, Public Debt, Inflation and Exchange Rate (1991-2006)
Fiscal operations 1991-2004 (LL Billion)

	Government Revenues	Government Expenditures	(o/ w interest payments)	Budget deficit/ surplus	Primary deficit/ surplus	Budget Deficit/ GDP (%)	Primary Deficit or surplus/ GDP (%)	Budget deficit/ expenditures (%)
1991	522	1,196	204	-674	-470	-16.3	-11.4	56.4
1992	1,138	2,219	519	-1,081	-562	-11.4	-5.9	48.7
1993	1,855	3,017	784	-1,162	-378	-8.9	-2.9	38.5
1994	2,241	5,204	1,488	-2,963	-1,475	-19.4	-9.6	56.9
1995	3,033	5,856	1,875	-2,823	-948	-15.7	-5.3	48.2
1996	3,534	7,225	2,653	-3,691	-1,038	-18.1	-5.1	51.1
1997	4,010	9,162	3,378	-5,152	-1,774	-21.5	-7.4	56.2
1998	4,449	7,906	3,352	-3,457	-105	-13.5	-0.4	43.7
1999	4,873	8,453	3,625	-3,580	45	-14.0	0.2	42.4
2000	4,684	10,621	4,197	-5,937	-1,740	-23.6	-6.9	55.9
2001	4,646	8,875	4,312	-4,229	83	-16.4	0.3	47.7
2002	5,830	10,139	4,622	-4,309	313	-15.5	1.1	42.5
2003	6,655	10,593	4,874	-3,938	936	-13.1	3.1	37.2
2004	7,515	10,541	4,021	-3,026	995	-9.2	3.0	28.7
2005	7,405	10,203	3,534	-2,798	736	-8.4	2.2	27.4
2006	6,703	10,595	4,079	-3,893	186	-13.8	0.55	36.7

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